

EXECUTIVE SECRETARIAT
ROUTING SLIP

*Memo
Chono*

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X (w/o att)		<i>C</i>
2	DDCI		X (w/o att)		
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC	X (w/o att)			
17	NIO/USSR		X (w/att)		
18	D/SOVA		X (w/o att)		
19	ES		X		
20					
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SUSPENSE

30 April 1986

Date

Remarks

To 16: NIO/USSR to get back to DCI re CSIS speech and also re any comments on Summit approach and differences between Harry Rowan and SOVA.

Executive Secretary

23 April 1986

Date

3637 (10-81)

SECRET

Executive Registry

86- 1729

22 April 1986

MEMORANDUM FOR: National Intelligence Officer for USSR

FROM: Director of Central Intelligence

SUBJECT: 16 May CSIS/Georgetown Speech and Tokyo Summit

1. Henry Kissinger got me to give a talk at Georgetown on 16 May on the Soviet Union. The attached speech was prepared for me. I haven't read it but, on the basis of past experience, I would not think I'd be inclined to use it. I'd appreciate receiving some of the things you have been saying in your talks. After I look at it, let's have a talk about what I might want to say on 16 May.

2. We had a meeting at the White House on the Tokyo Summit today. The Summiteers are to select one or two subjects for general discussion. One is how to handle a wounded bear; the other is world agriculture. There seems to be a strong tendency among the Summiteers to choose world agriculture as the subject for discussion, in part because it may lead to some practical policy issues.

3. Also at the Tokyo Summit meeting, Allen Wallis talked to me about the Rowen presentation. Judging from Harry's article in the WALL STREET JOURNAL on 21 April and what Wallis had to say, I don't see the disparity between what the President heard from Allen and what he heard from us at as much variance as the SOVA fellows seem to think.

25X1 4. I am returning your memo on the [] which I read, along with a copy of Harry Rowen's WALL STREET JOURNAL piece.


William J. Casey

Attachments:

1. CSIS Speech Folder

2. []

3. WSJ Article by Harry Rowen, 21 April 1986

SECRET

THE WALL STREET JOURNAL MONDAY, APRIL 21, 1986

Gorbachev and the Ailing Russian Bear

By HENRY S. ROWEN
And VLADIMIR G. TREML

The leadership of the Soviet Union is confronted with the most fundamental and difficult of choices, one made more urgent by the precipitous decline in oil prices:

- It faces the prospect of continued, perhaps worsened, economic stagnation. Overcoming this condition requires a major increase in the productivity of labor and capital; this increase is sought through new managers, more discipline, a crackdown on alcoholism, and renovation of the nation's stock of machinery. But what is really needed is to reduce the regime's central control over the economy.

- Reduced control would alter the distribution of income, transform repressed inflation into open inflation and probably cause labor strife. In time, it would diminish party control over the country.

- Without such a shift the country is fated to remain economically backward—behind by about a generation (25 to 30 years)—relative to the West. Although such a lag certainly doesn't exist for the Soviet military sector today, over time its ability to compete militarily will be in jeopardy.

It is increasingly apparent that the period of rapid economic growth from 1950 to 1975, which averaged 5% a year, was a one-time shift from a very backward, largely agricultural society to a semi-modern, largely industrialized one. This growth was achieved through extensive exploitation of natural resources, more labor inputs, and technology obtained from the West. Since 1975, estimated gross national product growth has averaged a little more than 2% a year (1% per capita). Although growth in the West also slowed over this period, the West was badly hurt by oil-price rises while the Soviet Union, a major oil and gas exporter, profited from them.

No Call for Sacrifices

There also is abundant evidence of grave social ills. Infant mortality has been increasing, alcoholism has reached alarming levels, and life expectancy has been declining for 20 years. By 1980, the average life expectancy of men had receded to the mid-1950s level of about 60 years.

The new Five Year Plan (1986-90) promises to get the country moving again. It sets an ambitious target of 5%-a-year growth to 2000. It calls for a more modest 3½% GNP increase for the next five years, industrial output growing at 4½% a year and machinery output at around 7%. The supply of consumer goods is to grow also; there was no call for sacrifices at the recent 27th Party Congress.

This is to be done with little more labor input and an increase of less than 4% a year in total investment. A huge investment increase is planned for machine building (80%) and a large one for energy (about 30% for oil, coal and electric power). The large share going to agriculture is to be held nearly constant. So all other categories will have to fall: transportation, construction, housing, services. The key, then, must be increased productivity. Factors of production (of labor and capital), which declined about 1% a year after 1975, are now to increase by almost 1% a year.

This is not a credible plan. An obvious problem is a much worsened trade prospect. Since the early 1970s the Soviet economy has become much more dependent upon trade; there have been massive imports of food, consumer goods and machinery. (By the early 1980s more than one-third of newly installed machinery was imported.) Now, that growth source is gone. After years of increases, oil production has declined for two years and in 1985 the volume of oil exports to the West declined 30%. To compound the problem, the dollar price of oil has fallen about one-half. (This drop lowers the value of natural gas sold to Western Europe about \$1.5 billion a year; if the Europeans don't negotiate a payment cut, they will be giving the Soviets a huge gift.) To top it off, weapons sales to oil-rich countries, a market recently valued at \$5 billion to \$6 billion a year, are shrinking fast.

Altogether, Soviet hard-currency earnings in 1986 will be half what they were in 1984. Moscow's response last year was to borrow an additional \$5 billion, and it will seek more this year. By the end of 1986, its net debt probably will be about \$20 billion as against annual hard-currency earnings of under \$20 billion. Further borrowing from private sources will come harder—in the absence of Western government guarantees. Moscow will try to sell more oil to the West, perhaps diverting more from the East Europeans for that purpose, and more gold and diamonds, but if oil prices stay down, it won't come close to recouping its losses.

The result will be a sharp fall in some combination of Soviet food and equipment imports from the West; the choice of which to cut will be a hard one. At the very least, extra machinery will not be available from the West—unless Western governments decide to bail out Mikhail Gorbachev by underwriting loans and overpaying for gas.

Moscow is already squeezing the East Europeans to get more and better machinery out of them. The days of Soviet subsidized oil are over; indeed, Moscow is now trying to get more from them in exchange for less. The limit to this squeezing process will be the fear of further popular eruptions in Eastern Europe.

In short, economic performance will probably be no better than in the recent past and could easily be worse. (The anti-drinking campaign, potentially beneficial in the long run, probably won't help soon. It leaves people with more money but few additional goods; the likely result is more inflation.) One consequence—of symbolic importance—is that Japan by 1990 may have displaced the Soviet Union as the

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world's second-largest economy.

Mr. Gorbachev talks about major changes that "ought" and "should" be made. But there is a poverty of new, basic ideas, and nothing major happens. Of course, the bureaucracy mightily resists change and Mr. Gorbachev will want to limit changes to those essential to eking out enough economic gains to enable him, above all, to keep control over the country and also to sustain its military strength and its foreign empire. With good weather, enough Western resources, and skillful management, he can defer the riskier strategy of giving people more economic freedoms in order to stimulate growth.

If the regime doesn't change course, it will gradually lag in military competition, given the constraint on resources and the evolution of modern technologies. These technologies center on the processing and transmission of information, technologies that a centrally planned system not only lags in creating but that also threaten its internal control. Moreover, the regime is not in good shape to take on costly new ventures abroad. Still, a note of caution: Operations in Afghanistan, Angola and Nicaragua are being pursued more vigorously under the new management; it won't pass up low-risk opportunities (for instance in Pakistan or Iran), and it still possesses a powerful military establishment.

Although there is much uncertainty about if and when Mr. Gorbachev will try to move toward a marketlike system and what will happen (including what will happen to him) if he tries, several things are clear: (a) The system is not on the verge of collapse; (b) the Soviet Union is not going to strike against the West—retreat is more in character for a Leninist system in difficulty, and (c) Mr. Gorbachev badly needs relief from the military competition of the West and just as badly needs the West's resources.

Issues to Be Aware of

What should the West do? Here are some guiding principles. First, the democracies have an interest in a politically diversified Soviet system. A judgment must be made on whether helping the ailing bear or having unsubsidized economic relations is the better way to promote this goal. Many Europeans and some Americans hold that Western subsidies keep the Soviets from becoming desperate and more dangerous, and promote useful change. That theory, in the form of detente, worked poorly in the 1970s and prospects for it now aren't good. The key reason is that the Moscow establishment doesn't want to change; the more help it gets, the less likely it is to change.

Second, all capitalist leaders should be conscious of the weakening Soviet competitive position. For the Japanese it bears on their recovery of four small Soviet-occupied islands north of Japan's mainland; for the Europeans it offers increased scope for reducing the Soviet military threat to them (without matching Western concessions); for the U.S., which has an interest in all of these issues, it bears on nuclear-arms-control negotiations, extensions of the Soviet empire in the Third World, Jewish emigration and other matters at issue.

Third, the more communication and personal contact there is between the peoples of the Soviet Union and the West—and the freer the communications among the Soviet peoples—the more constrained will be the arbitrary power of the rulers. In addition to what we unilaterally do (today with radios, tomorrow perhaps with direct TV broadcasting), promoting this purpose should be prominent in our continuing transactions with the regime.

The pressure is mounting in Moscow to travel partway down the capitalist road. Although significant movement seems unlikely soon, there may be some by the end of the decade. At a later stage in the evolution of the internal crisis, a wider range of positive Western actions to promote change might be warranted. But that is a later and uncertain prospect.

Mr. Rowen is a professor at the Stanford University Business School and a senior research fellow at the Hoover Institution. Mr. Treml is a professor of economics at Duke University.

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DCI REMARKS TO

CSIS INTERNATIONAL COUNCILLORS

16 MAY 1986

THE USSR UNDER GORBACHEV: MORE GUNS OR NEW BUTTER?

JUST ABOUT A YEAR AGO, A NEW FACE APPEARED IN THE TOP LEADERSHIP SPOT ON THE KREMLIN WALL. AFTER A PERIOD OF POLITICALLY UNSETTLED CONDITIONS IN THE SOVIET UNION -- POLITELY REFERRED TO AS A "LEADERSHIP TRANSITION" -- POLITICAL POWER CAME TO REST IN THE HANDS OF MIKHAIL GORBACHEV [MEEK-HILE GOR-BAH-CHOFF] AND HIS SUPPORTERS. IN THE PAST YEAR WE HAVE SEEN GORBACHEV DEMONSTRATE A VIGOROUS LEADERSHIP STYLE, UNVEIL NEW DOMESTIC PROGRAMS, AND INJECT SOMETHING APPROXIMATING A NEW OPTIMISM INTO THE SOVIET BODY POLITIC. BUT DOES THE GORBACHEV ERA REPRESENT A BREAK WITH THE PAST -- SOMETHING GENUINELY NEW? OR IS IT MERELY A CONTINUATION OF THE SOVIET POLICIES AND PRACTICES OF THE PAST -- WITH ONLY A NEW VENEER?

ROBERT CONQUEST, A NOTED SOVIET AFFAIRS SCHOLAR, ONCE OBSERVED THAT "IF THE UNITED STATES HAS A MILITARY-INDUSTRIAL COMPLEX, THE SOVIET UNION IS A MILITARY-INDUSTRIAL COMPLEX." DESPITE INEFFICIENCIES IN ITS ECONOMY, AND POLITICAL SETBACKS DUE TO INFIGHTING AMONGST THE LEADERSHIP, THE SOVIETS HAVE BUILT OVER THE LAST TWENTY YEARS ARMED FORCES SO POWERFUL THAT THEY WILL ENSURE CONQUEST OF TERRITORY ON ANY BATTLEFIELD. IRONICALLY, THEY HAVE DONE THIS IN LARGE PART THROUGH THE ACQUISITION OF

....WESTERN TECHNOLOGY AND

WESTERN TECHNOLOGY AND INDUSTRIAL EQUIPMENT. GORBACHEV CLEARLY WILL CONTINUE TO BUILD UP THE SOVIET ARMED FORCES. HE WILL ALSO REDOUBLE RUSSIA'S EFFORTS TO ACQUIRE -- BY FAIR MEANS OR FOUL -- WESTERN TECHNOLOGY.

BUT GORBACHEV CANNOT AVOID FACING THE CRUCIAL ISSUE -- CAN THE SOVIET UNION INDEFINITELY SUSTAIN ITS "GUNS INSTEAD OF BUTTER" POLICY?

RUSSIAN PERCEPTIONS OF THEIR NATIONAL SECURITY ARE DEEPLY ROOTED IN THAT COUNTRY'S HISTORY. INDEED, THOSE PERCEPTIONS HAVE THEIR ORIGINS IN THE POLICIES AND THINKING OF PETER THE GREAT--POSSIBLY EVEN EARLIER.

TO PETER THE GREAT, NATIONAL SECURITY MEANT JUST ONE THING--EXPANSION OF THE RUSSIAN BORDERS AT THE EXPENSE OF HER NEIGHBORS, THE SWEDES, POLES, TURKS, AND PERSIANS. TO ACHIEVE SECURITY, PETER NEEDED--AND CREATED BEFORE HIS DEATH--THE LARGEST AND MOST POWERFUL STANDING ARMY IN EUROPE, A RUSSIAN NAVY, AND MANY STATE-OWNED DEFENSE INDUSTRIES TO SUPPORT HIS MILITARY MACHINE. I MIGHT ADD, PARENTHETICALLY, THAT PETER WAS THE FIRST RUSSIAN LEADER TO IMPORT FOREIGN TECHNICIANS AND MASSIVE AMOUNTS OF TECHNOLOGY FROM THE WEST--INTENDED TO FEED HIS WAR MACHINE. MOREOVER, PETER WAS THE CREATOR OF THE FIRST RUSSIAN SECRET POLICE AND INTELLIGENCE ORGANIZATION THAT WAS DESIGNED TO KEEP HIS AUTOCRATIC REGIME SECURE AND TO SPY ON HIS WESTERN NEIGHBORS.

SINCE PETER'S DAY, WE HAVE SEEN RUSSIA SLOWLY, INEXORABLY EXPAND OUTWARD TO GAIN WARM WATER PORTS ON THE BLACK AND BALTIC SEAS, TO SUBJUGATE AND ABSORB OTHER LANDS AND PEOPLES INTO A VAST EMPIRE, AND TO ENSLAVE RUSSIAN SOCIETY TO FEED THE ENORMOUS APPETITE OF THE MILITARY ESTABLISHMENT THAT ACHIEVED THESE ENDS. INDEED, ONE EMINENT HISTORIAN REPORTS THAT TWO THIRDS OF PETER THE GREAT'S STATE BUDGET WAS SPENT ON ARMS PROCUREMENT AND MAINTENANCE OF THE FORCES. IT WOULD SEEM THAT THINGS HAVEN'T CHANGED MUCH.

THE RUSSIAN VIEW WAS THEN AS IT IS TODAY, THAT ENEMIES EXISTED ON EVERY SIDE. THEN, AS NOW, FOREIGNERS WERE VIEWED WITH A MIXTURE OF WONDER, FEAR, SUSPICION, AND CONTEMPT. FOREIGNERS ARE NEEDED FOR TECHNICAL ASSISTANCE IN BUILDING THE RUSSIAN STATE, BUT ARE A NECESSARY EVIL TO BE GOT RID OF AT THE EARLIEST MOMENT. NO FOREIGN STATE COULD BE TRUSTED, AND ALLIANCES AND TREATIES COULD AT BEST BE CONSIDERED TRANSITORY MEASURES THAT TEMPORARILY BOUGHT PEACE NEEDED TO BUILD THE RUSSIAN STATE. ULTIMATELY, PEACE AND SECURITY COULD BE GUARANTEED ONLY BY COWING OR SUBDUING THE FOREIGNER WITH TERRIBLE, OVERWHELMING FORCE.

THE POINT OF THIS BRIEF EXCURSION INTO RUSSIAN HISTORY IS TO DEMONSTRATE THAT RUSSIAN ATTITUDES AND BELIEFS ARE DEEPLY INGRAINED AND HAVE CHANGED BUT LITTLE OVER 300 YEARS. IF ANYTHING, MARXISM-LENINISM HAS TENDED TO REINFORCE THESE HABITS. IN MY VIEW, IT WOULD BE EXCEEDINGLY NAIVE FOR THE WEST TO EXPECT THAT THE LEOPARD WOULD CHANGE HIS SPOTS OVER A FEW MONTHS OR YEARS. GORBACHEV, AS BOTH A RUSSIAN AND A MARXIST-LENINIST, IS COMMITTED TO THE DEFENSE OF THE SOVIET HOMELAND AND THE EXPANSION OF SOVIET POWER ABROAD.

....SINCE THE CLOSE

SINCE THE CLOSE OF WORLD WAR II, THE LEADERS OF THE SOVIET UNION -- CONTINUING THE PATTERN OF EXPANSION BEGUN CENTURIES AGO -- HAVE PROJECTED SOVIET POWER FAR BEYOND SOVIET BORDERS. IN 1945, THE SOVIETS FOUND THEMSELVES ON THE ELBE [EL-BUH] RIVER IN CENTRAL GERMANY. POWERFUL SOVIET FORCES OCCUPIED FOREIGN TERRITORY IMMEDIATELY ADJACENT TO THE SOVIET UNION ALONG THE BALTIC SEA, IN THE BALKANS, NORTHERN IRAN, MANCHURIA, AND SAKHALIN AND THE KURILE ISLANDS IN THE FAR EAST. THE SOVIETS RAPIDLY TRANSFORMED THE EASTERN EUROPEAN COUNTRIES THEY OCCUPIED INTO SATELLITES. THEY SPONSORED THE GROWTH OF COMMUNIST PARTIES IN WESTERN EUROPE. AND THEY BUILT A TOUGH LITTLE STALINIST STATE IN NORTH KOREA THAT SPEEDILY ATTACKED ITS DEMOCRATIC SOUTHERN NEIGHBOR, THUS SPARKING A BITTER THREE-YEAR WAR IN ASIA. NOT CONTENT WITH AMASSING BUFFER STATES AND FOMENTING TROUBLE AMONG POTENTIAL ENEMIES, THE SOVIETS BEGAN ANOTHER DRIVE IN THE MID-1960S TO BUILD MASSIVE ARMED FORCES CAPABLE OF FACING ANY ENEMY ON ANY BATTLEFIELD. THIS INCLUDED THE FOUNDING OF A NEW SOVIET NAVY THAT TODAY SAILS ON ALL THE OCEANS OF THE WORLD.

TODAY, SOVIET EXPANSION HAS ENTERED A NEW PHASE. FOR THE FIRST TIME IN RUSSIA'S HISTORY, IT HAS PLANTED WHAT AMOUNTS TO OVERSEAS "COLONIES" ON FOUR CONTINENTS. TODAY, THE SOVIET UNION ENJOYS BASE RIGHTS AND HAS A PERMANENT PRESENCE IN CUBA, ANGOLA, ETHIOPIA, SOUTH YEMEN, AND VIETNAM. THEY ARE ALSO HELPING CONSOLIDATE A MARXIST REGIME IN NICARAGUA WHICH MIGHT, AT SOME POINT, GIVE THE RUSSIANS THEIR FIRST PERMANENT BASE ON THE NORTH AMERICAN MAINLAND. THE SOVIET HIGH SEAS FLEET -- WHICH IN FORMER TIMES SAILED THE BLACK SEA AND BALTIC -- NOW REGULARLY PATROLS OFF THE

....U.S. EAST COAST.

U.S. EAST COAST. AND, CONTINUING THE TSARIST TRADITION OF CONQUERING AND ABSORBING THE WEAK STATES OF CENTRAL ASIA, THE SOVIETS THREW ONE HUNDRED THOUSAND MEN INTO A SAVAGE INVASION OF AFGHANISTAN IN 1979. GORBACHEV HAS INHERITED A LARGE EMPIRE INDEED.

BUT IT IS DOMINATION OF THE EURASIAN LANDMASS WHICH IS OF PARAMOUNT CONCERN TO THE SOVIETS AND TO GORBACHEV. FOR THE SOVIETS BELIEVE THAT IT IS HERE THAT THE VICTORY OR DEFEAT OF THEIR STATE AND SOCIETY WILL BE DECIDED. TO DOMINATE EUROPE AND THE IMMEDIATELY ADJACENT PARTS OF ASIA, THE SOVIETS HAVE SPARED NO EFFORT TO CREATE A TERRIFYING ARSENAL OF CONVENTIONAL WEAPONS. THESE INCLUDE SOME 50,000 TANKS, ABOUT 7,000 OFFENSIVE TACTICAL HELICOPTERS AND AIRCRAFT, NEARLY 400 SUBMARINES, AIRCRAFT CARRIERS, THOUSANDS OF ARTILLERY PIECES AND MULTIPLE ROCKET LAUNCHERS, AND MORE THAN 200 MOTORIZED RIFLE, TANK, AND AIRBORNE DIVISIONS. MOREOVER, THE STEADY GROWTH OF SOVIET WEAPONS PROCUREMENT WILL GIVE THE SOVIETS A MASSIVE CUMULATIVE INVENTORY OF WEAPONS, WHICH THEY WILL CONTINUE TO SUBSTANTIALLY MODERNIZE OVER THE NEXT FIVE YEARS. THIS IS ESPECIALLY SERIOUS WHEN YOU UNDERSTAND THAT, DURING THE PAST FIVE YEARS, THE SOVIETS HAVE OUTSPENT US BY THE EQUIVALENT OF \$165 BILLION FOR WEAPONS. THIS IS THE PRODUCT OF RUSSIA'S UNCHANGING POLICY OF PLACING GUNS BEFORE BUTTER, AND CONSISTENTLY BLEEDING THE CIVILIAN ECONOMY IN ORDER TO FEED THE SOVIET MILITARY.

NOW, WHAT IS CURIOUS IN ALL THIS IS THAT RUSSIA'S HUGE MILITARY FORCES MAY NEVER BE USED AGAINST THE UNITED STATES OR NATO -- ALTHOUGH THE SOVIETS CLEARLY ARE PREPARED TO USE THEM IF THEY BELIEVE THEIR VITAL

....INTERESTS ARE THREATENED.

INTERESTS ARE THREATENED. THE MERE EXISTENCE OF THIS FORCE -- BUILT, AS I THINK I'VE DESCRIBED, AT ENORMOUS HUMAN AND MATERIAL COST -- NOT ONLY CERTIFIES THE SOVIET UNION AS A SUPERPOWER, BUT HAS AN INTIMIDATING EFFECT ON COUNTRIES AROUND THE WORLD. IT THUS HELPS THE SOVIETS EXPAND THEIR PRESENCE, INFLUENCE, AND POWER STILL FURTHER BY PROVIDING A BACKDROP FOR AN AGGRESSIVE CHALLENGE TO THE WESTERN DEMOCRACIES AND JAPAN THAT IS BEING PLAYED OUT ON THE GROUND IN THE THIRD WORLD AND ASTRIDE THE WORLD'S MAJOR SEA LANES.

IN ADDITION TO MASSIVE CONVENTIONAL FORCES POSITIONED TO ATTACK ITS NEIGHBORS IN EUROPE, THE MIDDLE EAST, AND EAST ASIA, THE SOVIETS HAVE ALSO SPARED NO EFFORT IN BUILDING OFFENSIVE NUCLEAR MISSILE FORCES.

OVER THE LAST 10 YEARS, THE SOVIETS' ARSENAL OF OFFENSIVE NUCLEAR MISSILES HAS AT LEAST MATCHED--AND PROBABLY SURPASSED--OURS. BY THE MID-1990S, THE SOVIETS PLAN TO REPLACE NEARLY ALL CURRENTLY-DEPLOYED INTERCONTINENTAL NUCLEAR ATTACK FORCES--THAT IS, LAND AND SEA-BASED BALLISTIC MISSILES AND HEAVY BOMBERS--WITH NEW AND IMPROVED SYSTEMS. THE NUMBER OF DEPLOYED STRATEGIC FORCE WARHEADS COULD INCREASE BY A FEW THOUSAND OVER THE NEXT FIVE YEARS, WITH THE POTENTIAL FOR EVEN GREATER EXPANSION IN THE 1990s.

TO MAKE IT MORE DIFFICULT FOR US TO FIND THEIR MISSILES, THE SOVIETS ARE PROTECTING THEIR MISSILE FORCE BY MAKING SOME OF IT MOBILE. THEY HAVE ALREADY DEPLOYED THEIR FIRST NEW MOBILE ICBM AND WILL SOON BEGIN DEPLOYING A SECOND. WE CAN ALSO EXPECT THE SOVIETS TO "HIDE" MORE OF THEIR NUCLEAR MISSILES AT SEA.

....FOLLOW-ON MISSILE

FOLLOW-ON MISSILE PROGRAMS--MISSILES WITH IMPROVED ACCURACY, GREATER THROW-WEIGHT POTENTIAL, AND PROBABLY MORE WARHEADS--WILL BEGIN FLIGHT-TESTING IN THE 1986-90 TIME FRAME.

MAJOR IMPROVEMENTS ARE ALSO UNDER WAY IN SOVIET BALLISTIC MISSILE SUBMARINES--THE SO-CALLED "BOOMERS" THAT PATROL OFF OUR EAST COAST--AND BOMBER FORCES CAPABLE OF STRIKING EUROPE, THE MIDDLE EAST, ASIA, AND EVEN PARTS OF NORTH AMERICA.

NOW WHAT IS NOT CLEARLY UNDERSTOOD IN THE WEST IS THE IMPORTANCE TO THE SOVIETS OF A POWERFUL STRATEGIC DEFENSIVE CAPABILITY. INDEED, IT IS LITTLE UNDERSTOOD BECAUSE WE IN THE WEST DO NOT SHARE THE SOVIETS' VIEW THAT A NUCLEAR WAR IS SURVIVABLE, MUCH LESS "WINNABLE."

PERHAPS THE MOST STRIKING FEATURE OF THE SOVIET STRATEGIC DEFENSE IS THE PROTECTION AFFORDED THE TOP LEADERSHIP AND THE SCIENTIFIC AND TECHNICAL ELITE. THIS SYSTEM INCLUDES MORE THAN 1,500 HARDENED FACILITIES, PATTERNED AFTER THOSE AVAILABLE TO THE SOVIET ARMED FORCES, FAR FROM ENDANGERED URBAN CENTERS. IN ADDITION, RESERVES OF VITAL MATERIALS ARE MAINTAINED--MANY IN HARDENED UNDERGROUND STRUCTURES--AND REDUNDANT INDUSTRIAL FACILITIES HAVE BEEN BUILT AND ARE IN ACTIVE PRODUCTION. THOUGH A NUMBER OF WESTERN OBSERVERS HAVE SCOFFED AT CIVIL DEFENSE AS A CONCEPT, THE SOVIETS THEMSELVES TAKE IT QUITE SERIOUSLY. THE SOVIETS DO NOT HOPE TO SAVE EVERYONE IN THE EVENT OF NUCLEAR WAR--THEY EXPECT LOSSES TO BE STAGGERING--BUT THEY DO HOPE TO PRESERVE ENOUGH OF THEIR HUMAN AND MATERIAL RESOURCE BASE TO PROVIDE A MEASURE OF

SUPERIORITY IN A POST-WAR WORLD. IF THEY SUCCEED, THE SOVIETS BELIEVE, THEY WILL HAVE PREVAILED OVER A WEST WHICH WILL BE TOTALLY DEVASTATED.

BUT THERE IS FAR MORE TO SOVIET STRATEGIC DEFENSIVE PREPARATIONS THAN CIVIL DEFENSE. FOR EXAMPLE, WE EXPECT THE SOVIETS TO COMPLETE IMPROVEMENTS TO THEIR OPERATIONAL ABM DEFENSES AT MOSCOW BY 1987. IN ADDITION, AT A RESEARCH SITE IN CENTRAL ASIA, THE SOVIETS ARE DEVELOPING A SYSTEM USING TRANSPORTABLE ENGAGEMENT RADARS, ABOVE-GROUND LAUNCHERS, AND A NEW HIGH-ACCELERATION SHORT-RANGE INTERCEPTOR THAT WOULD BE SUITABLE FOR WIDESPREAD ABM DEFENSE.

THE DISTINCTION BETWEEN MISSIONS FOR SURFACE-TO-AIR MISSILES (SAMS) AND ABMS IS BECOMING INCREASINGLY BLURRED AS THE RESULT OF TECHNOLOGICAL IMPROVEMENTS TO NEW SAMS SUCH AS THE SA-X-12. THAT SYSTEM'S CAPABILITIES AGAINST TACTICAL BALLISTIC MISSILES GIVES IT THE POTENTIAL TO FUNCTION IN A MISSILE DEFENSE ROLE.

WHAT IS MOST IRONIC, HOWEVER, IS THAT--WITH VERY LITTLE PUBLIC FANFARE-- THE SOVIETS HAVE LONG BEEN WORKING ON TECHNOLOGIES BASIC TO THE DEVELOPMENT OF AN ADVANCED STRATEGIC DEFENSE SYSTEM. INDEED, SOME OF THE PROJECTS CLOSELY RESEMBLE ASPECTS OF OUR OWN STRATEGIC DEFENSE INITIATIVE. SOVIET WORK ON DIRECTED-ENERGY AND KINETIC-ENERGY WEAPONS FOR USE IN SPACE GOES BACK MANY YEARS. MORE THAN 10,000 ENGINEERS AND ENORMOUS SUMS ARE INVOLVED IN THIS EFFORT.

....LET ME FOR A MOMENT

LET ME FOR A MOMENT DESCRIBE FOR YOU SEVERAL OF THE KEY ELEMENTS OF THIS LITTLE-PUBLICIZED SOVIET PROGRAM.

THE SOVIETS HAVE SEVERAL PROMISING APPROACHES TO WEAPONS THAT WOULD SUBSTANTIALLY IMPROVE THEIR STRATEGIC DEFENSIVE CAPABILITIES. ALL INVOLVE HIGH TECHNOLOGY SOLUTIONS. BUT THEIR DEVELOPMENT PROGRAM REPRESENTS A FAR GREATER INVESTMENT OF PLANT SPACE, MONEY, AND MANPOWER, THAN DOES OUR OWN SDI.

THE FIRST SUCH PROGRAM INVOLVES THE USE OF LASERS THAT COULD BE USED IN AN ANTISATELLITE ROLE TODAY, AND COULD BE USED IN A BALLISTIC MISSILE DEFENSE ROLE IN THE FUTURE. THE SOVIETS MAY ALSO HAVE THE CAPABILITY TO DEVELOP THE TECHNOLOGY NECESSARY FOR LASER WEAPONS TO TRACK AND ATTACK THEIR TARGETS FROM SPACE. IF TECHNOLOGY NOW UNDER STUDY PROVES SUCCESSFUL, THE SOVIETS MIGHT BE ABLE TO DEPLOY SPACE-BASED LASER SYSTEMS FOR BALLISTIC MISSILE DEFENSE BY THE TURN OF THE CENTURY.

ANOTHER PROGRAM INVOLVES WHAT ARE CALLED PARTICLE-BEAM WEAPONS. THE SOVIETS HAVE AN IMPRESSIVE EFFORT IN THIS TECHNOLOGY, AND COULD REALIZE THE FULL POTENTIAL OF THIS APPROACH AFTER THE YEAR 2000. IN FACT, MUCH OF OUR UNDERSTANDING AS TO HOW PARTICLE BEAMS COULD BE MADE INTO PRACTICAL DEFENSIVE WEAPONS IS BASED ON SOVIET RESEARCH CONDUCTED MORE THAN FIFTEEN YEARS AGO.

....OTHER IMPORTANT TECHNOLOGIES

OTHER IMPORTANT TECHNOLOGIES THAT THE SOVIETS ARE EXPLORING FOR THEIR POTENTIAL AS STRATEGIC DEFENSIVE WEAPONS INCLUDE HYPER-VELOCITY KINETIC ENERGY WEAPONS AND RADIO FREQUENCY WEAPONS. THE SOVIETS ALREADY POSSESS AN OPERATIONAL ORBITAL ANTISATELLITE WEAPON THAT IS DESIGNED TO DESTROY SPACE VEHICLES WITH POWERFUL MULTI-PELLET BLASTS. IN ADDITION, THE SOVIETS HAVE CONDUCTED RESEARCH IN THE USE OF VERY STRONG RADIO BEAMS THAT HAVE THE POTENTIAL TO INTERFERE WITH CRITICAL ELECTRONIC COMPONENTS OF INCOMING BALLISTIC MISSILE WARHEADS.

A FINAL SOVIET DEFENSIVE MOVE IS TO SHARPLY UPGRADE THE QUALITY OF THEIR ANTISUBMARINE WARFARE (OR ASW) CAPABILITIES. THEY HAVE BEEN WORKING FEVERISHLY AT THIS IN AN EFFORT TO PINPOINT OUR OWN BALLISTIC MISSILE SUBMARINES AT SEA.

THE POINT OF ALL THIS IS THAT THE SOVIETS LEAVE NO STONE UNTURNED WHEN IT COMES TO DEFENDING THE SOVIET HOMELAND AND PREPARING FOR POSSIBLE WAR. STRATEGIC DEFENSE IS CONSIDERED EVERY BIT AS IMPORTANT AS STRATEGIC OFFENSE, AND IS AN INTEGRAL PART OF THE SOVIET DEFENSE POSTURE ALONG WITH CONVENTIONAL FORCES. WE HAVE NOTHING THAT IS COMPARABLE TO THIS EMPHASIS ON STRATEGIC DEFENSIVE SYSTEMS IN THE WEST. AND THAT LEAVES OPEN TO QUESTION OUR OVERALL STATE OF PREPAREDNESS.

LET'S TURN NOW TO THE HUGE SOVIET DEFENSE INDUSTRIES THAT SUSTAIN THE SOVIET WAR MACHINE. FOR IT IS THESE INDUSTRIES THAT PROVIDE THE TRUE SINEWS OF POWER ON WHICH THE VISIBLE ELEMENTS -- THE SOVIET FORCES -- DEPEND. OVER THE LAST DECADE, THE SOVIETS HAVE EXPANDED AND MODERNIZED

....NEARLY ALL OF THEIR KEY

NEARLY ALL OF THEIR KEY DEFENSE INDUSTRIES. THE FIVE YEAR PLAN WHICH GENERAL SECRETARY GORBACHEV RECENTLY PROPOSED TO THE PARTY CONGRESS CALLS FOR AMBITIOUS GROWTH AND MODERNIZATION OF CRITICAL HIGH TECHNOLOGY INDUSTRIES THAT SUPPORT THE SOVIET ARMED FORCES. THESE INDUSTRIES INCLUDE THE MICROELECTRONICS AND ADVANCED COMPUTERS ESSENTIAL FOR DEVELOPING THE MORE COMPLEX WEAPONS SYSTEMS THE SOVIETS PLAN FOR THE NEXT DECADE. THE IRONY HERE IS THAT THESE SOVIET ADVANCES WILL BE GREATLY AIDED BY ADVANCED TECHNOLOGY PURCHASED OR STOLEN FROM THE WEST.

THE KEY POINT IS THAT EVEN AT A TIME OF ECONOMIC DIFFICULTY AND A REORDERING OF DOMESTIC PRIORITIES, SOVIET DEFENSE PROGRAMS HAVE BEEN PROTECTED. WE BELIEVE THE CURRENT HIGH LEVEL OF MILITARY SPENDING WILL CONTINUE TO GROW AT THE RATE THAT HAS PREVAILED FOR THE PAST TEN YEARS. FOR EXAMPLE, DURING THE NEXT FIVE YEAR PLAN WE EXPECT ICBM PRODUCTION TO INCREASE SUBSTANTIALLY OVER THE 1981-85 PLAN, SUBMARINE PRODUCTION TO BE UP ABOUT 20-25 PERCENT, AND TANK PRODUCTION TO JUMP WELL OVER 50 PERCENT. THERE WILL BE SOME 4,000 NEW FIGHTERS AND HELICOPTERS AND A FEW HUNDRED STRATEGIC BOMBERS PRODUCED DURING THIS PERIOD. WHILE THE NUMBER OF AIRCRAFT TO BE PRODUCED IS SOMEWHAT LESS THAN IN THE PRECEDING FIVE-YEAR PERIOD, THE NEW AIRCRAFT WILL BE SUBSTANTIALLY MORE TECHNICALLY ADVANCED AND CAPABLE. THUS, THE PROSPECT IS FOR CONTINUATION OF THE STEADY 20-YEAR EXPANSION AND MODERNIZATION OF SOVIET STRATEGIC AND CONVENTIONAL FORCES.

SO WHERE DOES ALL THIS MASSIVE BUILDING LEAD US? WHAT ARE THE PERCEIVED IMPLICATIONS FOR THE SOVIET UNION AND FOR THE WEST?

....GORBACHEV INHERITED AN ECONOMIC

GORBACHEV INHERITED AN ECONOMIC "MIXED BAG" FROM HIS PREDECESSORS. THE SOVIETS, AS YOU KNOW, HAVE ENORMOUS NATURAL RESOURCES AND ABUNDANT SKILLED AND UNSKILLED LABOR. HOWEVER, PRODUCTIVITY IS LOW AND REAL CREATIVITY AND THE ABILITY TO INNOVATE, NONEXISTENT. HENCE, WE SEE GORBACHEV'S DESPERATE EFFORT TO REVERSE THE ILLS OF THE PAST AND TO REVITALIZE THE USSR'S STAGNATING ECONOMY, TO MOTIVATE THE SOVIET WORKFORCE, TO INJECT NEW IDEAS INTO ECONOMIC PLANNING, TO BRING NEW BLOOD INTO THE ECONOMIC AND POLITICAL LEADERSHIP, AND TO STRIKE A BLOW AT THE PERVASIVE CORRUPTION AND WASTE THAT HAS SHACKLED THE SOVIET ECONOMIC SYSTEM FOR DECADES.

GORBACHEV IS VERY MUCH THE POLITICAL HEIR OF YURIY ANDROPOV. IT WAS ANDROPOV, AFTER ALL, WHO TRIED TO ROOT OUT CORRUPTION AND WASTE, AND WHO HAD PLANNED TO INVIGORATE THE SOVIET ECONOMIC SYSTEM WITH NEW TECHNIQUES OF MANAGEMENT AND INDUSTRIAL ORGANIZATION. POOR HEALTH AND POLITICAL OPPOSITION CAUSED ANDROPOV'S EFFORT TO FAIL. BUT HIS GREATEST ACHIEVEMENT, PERHAPS, WAS TO PAVE THE WAY FOR YOUNGER, MORE VIGOROUS MEN SUCH AS GORBACHEV TO CONTINUE WHAT HE HAD BEGUN.

GORBACHEV AND HIS ASSOCIATES ARE AWARE THAT THE DRIFT IN THE NATIONAL ECONOMY THAT SET IN DURING BREZHNEV'S DECLINING YEARS WAS THE PRODUCT OF POOR MANAGEMENT AND LOW WORKER PRODUCTIVITY. IN HIS FIRST YEAR IN POWER, GORBACHEV HAS MADE IT CLEAR THAT HIS CHARTER IS TO REVERSE THIS SLIDE AND BOOST OUTPUT THROUGH MANAGERIAL EFFICIENCY, REDUCTION OF WASTE, AND RAPID ASSIMILATION OF ADVANCED TECHNOLOGY. IN MY VIEW, GORBACHEV'S ECONOMIC PROGRAM WILL FOCUS ON THREE KEY AREAS:

....RENEWED EMPHASIS ON DEVELOPING

- ° RENEWED EMPHASIS ON DEVELOPING RESOURCES FOR EXPORT THAT WILL YIELD HARD CURRENCY, ESPECIALLY IN THE ENERGY FIELD;
- ° GREATER EFFORT TO IMPORT (OR DEVELOP INDIGENOUSLY) ADVANCED TECHNOLOGY TO MODERNIZE SOVIET INDUSTRY;
- ° AND, MODERNIZATION OF THE SOVIET REGIME'S INDUSTRIAL MANAGEMENT POLICIES.

THE OBJECTIVE IS ECONOMIC MODERNIZATION AND HIGHER OUTPUT, AND THE METHOD SEEMS TO BE A MIXTURE OF DISCIPLINE, MATERIAL INCENTIVE, AND TECHNOLOGY.

TOWARD THAT END, GORBACHEV HAS MOVED SWIFTLY TO BRING IN TOUGH, EFFICIENCY-MINDED PARTY APPARATCHIKS WHO WILL REFORM AND REVITALIZE KEY SECTORS OF THE ECONOMY. MOST HAVE PROVEN RECORDS AS MANAGERS OF KEY INDUSTRIES. MANY ALSO HAVE REPUTATIONS AS "HATCHET-MEN" WHO DO NOT SHRINK FROM REMOVING INEFFICIENT LOWER-LEVEL MANAGERS, OR FROM PROSECUTING CORRUPT OFFICIALS.

THE REMOVAL OF BREZHNEV'S OLD GUARD -- BEGUN BY ANDROPOV AND BEING COMPLETED BY GORBACHEV -- AND THE PROMOTION OF ENERGETIC, FORWARD-LOOKING MANAGERS TO SENIOR LEADERSHIP POSITIONS, GIVES GORBACHEV THE PHALANX OF PARTY SUPPORTERS NEEDED IN HIS DRIVE. AT THE MOMENT, GORBACHEV'S PERSONAL AND POLITICAL HEALTH APPEAR EXCELLENT. MOREOVER, GORBACHEV SEEMS TO HAVE EXCITED MORE INTEREST IN ECONOMIC REFORM AMONG WORKERS AND LOWER-LEVEL MANAGERS THAN ANY PREVIOUS SOVIET LEADER.

....BUT THE BIG QUESTION,

BUT THE BIG QUESTION, OF COURSE, IS: WILL HE SUCCEED?

KEEPING THAT BIG QUESTION OF FAILURE OR SUCCESS BEFORE US, LET'S TAKE A QUICK LOOK AT THE THREE FACETS OF GORBACHEV'S PROGRAM -- AS WE UNDERSTAND THEM.

THE FIRST KEY AREA IS AN EXPORT DRIVE TO GAIN FOREIGN EXCHANGE. CLEARLY, IN THIS AREA, THE SOVIETS' BIG MONEY-EARNER IS EXPORT OF ENERGY. AT PRESENT, THE MARKETS ARE HEAVILY EUROPEAN, BUT INCREASINGLY THE SOVIETS ARE REACHING OUT TO NEW MARKETS IN EAST ASIA, SOUTH AMERICA, AND SOUTH ASIA. EXPORTS OF OIL AND NATURAL GAS HAVE RISEN FROM ABOUT \$15 BILLION IN 1980 TO ABOUT \$20 BILLION AT PRESENT. TO BE SURE, THE RECENT SHARP DECLINE IN OIL PRICES HAS HURT THE SOVIETS' TOTAL EARNINGS PICTURE. BUT THE PROSPECT OF A STEADY INCREASE IN EXPORTS OF NATURAL GAS AND PETROLEUM PRODUCTS NONETHELESS GUARANTEES THE SOVIETS VERY CONSIDERABLE HARD CURRENCY.

IN ADDITION TO HARD CURRENCY, THE SOVIETS FIND THAT THEIR ENERGY FOOTHOLD YIELDS SOME POLITICAL MILEAGE AS WELL. IT IS HARD FOR A CUSTOMER -- HAVING BECOME DEPENDENT UPON IMPORTS OF SOVIET OIL OR NATURAL GAS -- TO TAKE PUNITIVE MEASURES AGAINST THE SOVIETS WHEN SUCH ACTIONS BECOME NECESSARY. MOREOVER, PLANNERS IN ENERGY-DEPENDENT COUNTRIES TEND TO LIMIT DEVELOPMENT OF THEIR OWN SOURCES OF OIL AND NATURAL GAS WHEN SOVIET PRICES MAKE DOMESTIC EXPLOITATION UNECONOMICAL. I AM SURE MOST OF YOU ARE WELL-AWARE OF THE IMPACT OF EXPANDING ENERGY SALES TO WESTERN EUROPE, AND THE LONG-RANGE POLITICAL AND ECONOMIC IMPACT OF THESE SALES ON OUR EUROPEAN ALLIES.

....YOU MAY NOT BE AWARE

YOU MAY NOT BE AWARE THAT, NEXT TO EXPORT OF ENERGY, THE SOVIETS' BIG MONEY-EARNER IS SALE OF WEAPONRY TO THE THIRD WORLD. SINCE MUCH OF THIS TRADE IS COVERT, THE EXTENT IS FAIRLY HARD TO ESTIMATE. BUT SOME OF MY ANALYSTS FIGURE THAT FULLY ONE-THIRD OF ALL SOVIET FOREIGN EXCHANGE EARNINGS -- THAT IS TO SAY, \$8 TO \$10 BILLION -- COME FROM WEAPONS SALES. PRIMARY CUSTOMERS ARE, OF COURSE, WEALTHY CLIENT STATES SUCH AS LIBYA AND IRAQ. BUT INCREASINGLY, THE SOVIETS ARE SEEKING OTHER CUSTOMERS IN THE MIDDLE EAST AND THE THIRD WORLD GENERALLY. MANY OF THESE COUNTRIES -- FOR EXAMPLE, INDIA -- ARE IN A RELATIVELY POOR POSITION TO PAY. HENCE, THE SOVIETS CAN GAIN A CERTAIN AMOUNT OF LEVERAGE WHENEVER THE CUSTOMER NEEDS CREDIT.

THE SECOND KEY AREA IN GORBACHEV'S PROGRAM IS RENEWED EMPHASIS ON ACQUISITION OF WESTERN TECHNOLOGY. THIS IS NOT NEW. INDEED, THE BIG PUSH TO ACQUIRE FOREIGN TECHNOLOGY BEGAN IN THE EARLY BREZHNEV YEARS. GORBACHEV, HOWEVER, CAN BE EXPECTED TO USE MORE OF HIS FOREIGN EXCHANGE TO OPEN THE DOORS OF WESTERN RESEARCH AND DEVELOPMENT. WE MAY SEE A STRONG, NEW SOVIET EFFORT TO OBTAIN HIGH TECHNOLOGY ESPECIALLY FROM JAPAN.

LOOKING AT THE TRADE PICTURE FOR THE LAST FIVE YEARS, WE SEE AT A GLANCE THAT THE SOVIETS IMPORT MOST OF THEIR HEAVY MACHINERY AND PRECISION INSTRUMENTS FROM THEIR EAST EUROPEAN SATELLITES. HOWEVER, THE SOVIETS HAVE MADE A MASSIVE EFFORT TO ACQUIRE TECHNOLOGY FROM THE WEST -- AND FROM THE UNITED STATES IN PARTICULAR -- IN

....COMPUTERS, MICROELECTRONICS,

COMPUTERS, MICROELECTRONICS, AVIATION, AND SEVERAL OTHER KEY AREAS. ALTHOUGH THE SOVIETS PURCHASE MUCH OF WHAT THEY NEED ON THE OPEN MARKET, I AM SORRY TO SAY THAT THEY DO NOT ALWAYS USE LEGAL CHANNELS FOR THIS EFFORT.

YOU MAY OR MAY NOT BE AWARE THAT DURING THE LATE 1970s, THE SOVIETS GOT ABOUT 30,000 SAMPLES OF WESTERN PRODUCTION EQUIPMENT, WEAPONS AND MILITARY COMPONENTS, AND OVER 400,000 TECHNICAL DOCUMENTS, BOTH CLASSIFIED AND UNCLASSIFIED. THE MAJORITY WAS OF U.S. ORIGIN, THOUGH THE SOVIETS MET A LARGE SHARE OF THEIR HIGH TECHNOLOGY REQUIREMENTS FROM WESTERN EUROPE AND JAPAN.

THIS TRULY IMPRESSIVE TAKE WAS ACQUIRED BOTH LEGALLY AND ILLEGALLY. WE ESTIMATE THAT DURING THIS PERIOD, THE KGB AND ITS MILITARY EQUIVALENT, THE GRU, (AND THEIR SURROGATES AMONG THE EAST EUROPEAN INTELLIGENCE SERVICES), STOLE ABOUT 70 PERCENT OF THE TECHNOLOGY MOST NEEDED BY THE SOVIETS TO UPGRADE THEIR DEFENSE INDUSTRIES. BY COPYING OUR DESIGNS, THE SOVIETS THEMSELVES ACKNOWLEDGE THE VALUE OF STOLEN WESTERN TECHNOLOGY TO THEIR MILITARY EQUIPMENT AND WEAPONS DEVELOPMENT PROGRAMS. FOR EXAMPLE:

- ° THE SOVIETS HAD OUR PLANS TO THE C-5A EVEN BEFORE IT FLEW. THANKS TO OUR TECHNOLOGY, THEY NOW HAVE A SIMILAR MILITARY TRANSPORT AIRCRAFT.
- ° THE SOVIET TRUCKS WHICH ROLLED INTO AFGHANISTAN CAME FROM A PLANT OUTFITTED WITH \$1.5 BILLION OF MODERN AMERICAN AND EUROPEAN MACHINERY.

....THE HIGHLY PRECISE

- ° THE HIGHLY PRECISE GYROS AND BEARINGS IN SOVIET HEAVY MISSILES WERE DESIGNED IN THE U.S.
- ° THE RADAR IN THE NEW SOVIET AWACS IS OURS.
- ° THEIR SPACE SHUTTLE IS A VIRTUAL COPY OF OUR INITIAL SHUTTLE DESIGN.
- ° AND THE LIST GOES ON AND ON.

HOW DO THEY DO IT?

SOME THEY GET LEGALLY. THEY DO THIS BY COMBING THROUGH OUR OPEN LITERATURE, BUYING THROUGH LEGAL TRADE CHANNELS, RELIGIOUSLY ATTENDING OUR SCIENTIFIC AND TECHNOLOGICAL CONFERENCES, AND SENDING SO-CALLED STUDENTS OVER HERE TO STUDY. BETWEEN 1970 AND 1976, THE SOVIETS PURCHASED SOME \$20 BILLION OF WESTERN EQUIPMENT AND MACHINERY, MUCH OF WHICH HAD POTENTIAL MILITARY APPLICATIONS.

BUT WHEN THEY CAN'T GET IT LEGALLY, THEY STEAL IT. THE SOVIETS HAVE SET UP A NUMBER OF DUMMY FIRMS IN SOPHISTICATED INTERNATIONAL OPERATIONS TO DIVERT AND STEAL WESTERN TECHNOLOGY. WE HAVE IDENTIFIED NEARLY 300 SUCH FIRMS OPERATING IN MORE THAN 30 COUNTRIES THAT ARE ENGAGED IN ILLEGAL TRADING ACTIVITIES. MOST DIVERSIONS ARE BY WAY OF WESTERN EUROPE, CANADA, OR JAPAN, WHICH IS WHY WE HAVE MADE SUCH A STRONG EFFORT TO ENLIST THE HELP OF OUR CANADIAN, EUROPEAN, AND JAPANESE ALLIES IN COMBATTING ILLEGAL TRADE ACTIVITIES AND IN SEEKING TO PROTECT U.S. MILITARY TECHNOLOGY COPRODUCED ABROAD.

GORBACHEV WILL ALMOST CERTAINLY GIVE NEW IMPETUS TO BOTH AVENUES FOR ACQUIRING OUR TECHNOLOGY -- PARTICULARLY MILITARY-RELATED TECHNOLOGY.

...IN THE THIRD LEG

IN THE THIRD LEG OF HIS REFORM PROGRAM -- INDUSTRIAL MANAGEMENT -- GORBACHEV MAY WELL FACE HIS MOST FORMIDABLE CHALLENGE. FOR IT IS HERE THAT GORBACHEV MUST COME TO GRIPS WITH AN ENTRENCHED INDUSTRIAL BUREAUCRACY THAT HAS BEEN IN PLACE, LITTLE DISTURBED, SINCE STALIN'S DAY. IN ADDITION, GORBACHEV AND HIS ASSOCIATES FACE AN UPHILL BATTLE IN TIGHTENING WORKER DISCIPLINE. ABSENTEEISM, ALCOHOLISM, AND APATHY CANNOT BE CONQUERED IN A DAY. PETTY THIEVERY, MISAPPROPRIATION OF STATE FUNDS, AND WASTE CAN ONLY BE CURBED IF THE OFFICIALS APPOINTED TO END THESE LOSSES ARE THEMSELVES ABOVE SUCH PRACTICES. AND MANY, FRANKLY ARE NOT.

WHAT ARE GORBACHEV'S OPTIONS HERE? PERHAPS HE CAN APPEAL TO PARTY DISCIPLINE AND TO INCREASED USE OF THE KGB AND COURTS TO EFFECT SOME CHANGE. FOR A WHILE, THIS APPROACH WILL WORK. INEVITABLY, GORBACHEV MUST EXPERIMENT WITH LESS AUTHORITARIAN MANAGEMENT STYLES -- PERHAPS COPIED FROM OTHER SOCIALIST STATES. IT MAY BE THAT, OVER THE SOMEWHAT LONGER TERM, THE SOVIETS MAY APPLY SELECTIVELY SOME MODERN MANAGEMENT TECHNIQUES LEARNED IN JAPAN OR WESTERN EUROPE. AGAIN, GORBACHEV'S CHARTER IS TO GET THE SOVIET ECONOMY ROLLING AGAIN -- AND HE MAY HAVE SOME LATITUDE HERE FOR EXPERIMENTATION. BUT LIBERALIZATION OF THE MANAGEMENT SYSTEM CARRIES WITH IT SOME DISTURBING IMPLICATIONS FOR OTHER PARTS OF THE SOVIET SYSTEM -- ESPECIALLY THE MONOPOLY ON POWER HELD BY THE COMMUNIST PARTY OF THE SOVIET UNION.

TO SUM UP, THE PECULIAR BLEAK RUSSIAN VIEW OF THE WORLD AND OF PERCEIVED ENEMIES ON ALL SIDES PERSISTS INTO THIS LAST QUARTER OF THE TWENTIETH CENTURY. AS IN EARLIER DAYS, SECURITY OF THE TSARIST AND PRESENTLY THE SOVIET STATE, IS BELIEVED TO REST ON EXPANSION OF THE

....BORDERS AND ABSORPTION

BORDERS AND ABSORPTION OR DESTRUCTION OF ALL POSSIBLE ENEMIES. THE SOLE GUARANTOR OF THE STATE IS, AND WILL REMAIN, OVERWHELMING MILITARY POWER--MILITARY POWER AND THE WILLINGNESS TO ACCEPT HUGE LOSSES IN THE BELIEF OF ULTIMATE VICTORY. THUS, SEEN IN HISTORICAL CONTEXT, GORBACHEV IS DOING NO MORE THAN STALIN OR PETER THE GREAT. HE IS BUILDING THE POWER OF THE RUSSIAN STATE BY IMPORTING TECHNOLOGY, IMPOSING DISCIPLINE, AND INCREASING PRODUCTION. HIS STYLE IS NEW; HIS GOALS ARE NOT.

BUT IN HIS QUEST TO MODERNIZE THE SOVIET ECONOMY, GORBACHEV AND HIS FOLLOWERS FACE A DILEMMA. AS I SAID EARLIER, THE SOVIET UNION IS A MILITARY-INDUSTRIAL COMPLEX -- AND IT HAS BEEN FOR NEARLY THREE CENTURIES. GORBACHEV WANTS A MORE EFFICIENT, MORE PRODUCTIVE ECONOMY IN ORDER TO SUSTAIN HIS MILITARY FORCES -- EXACTLY THE GOAL PERMITTED HIM BY RUSSIAN HISTORY AND BY THE POWERFUL SOVIET MILITARY ESTABLISHMENT THAT KEEPS GORBACHEV IN POWER. YET GORBACHEV CAN'T PAY THE PRICE OF THIS MODERNIZATION. BECAUSE THE PRICE IS TO RAISE LIVING STANDARDS FOR THE PEOPLE WHO ARE EXPECTED TO CARRY OUT THE MODERNIZATION. AND LIMITED SOVIET RESOURCES WON'T PERMIT BOTH GUNS AND BUTTER.

BY BUILDING EVER MORE WEAPONS, GORBACHEV IS COMMITTED TO A POLICY OF DEPRIVING THE BROADER ECONOMY OF THE CAPITAL NEEDED FOR MODERNIZATION. THE MORE RESOURCES THE SOVIETS MUST SINK INTO PURELY MILITARY PRODUCTION, THE LESS WILL BE AVAILABLE FOR MODERNIZING THE CIVILIAN ECONOMY. AND THE COSTS OF TECHNOLOGY-INTENSIVE MILITARY HARDWARE, AS YOU AND I BOTH KNOW, ARE STAGGERING. THUS, THE GLORIOUS DAYS OF ABUNDANCE UNDER SOCIALISM PROMISED LONG AGO BY LENIN ARE AS FAR AWAY AS EVER FOR THE AVERAGE SOVIET CITIZEN. WORSE, DUE TO MODERN WORLDWIDE COMMUNICATIONS, THAT AVERAGE

....CITIZEN IS BEGINNING

CITIZEN IS BEGINNING TO LEARN THAT -- NOT ONLY ARE WESTERNERS LIGHT-YEARS AHEAD OF HIM IN LIVING STANDARDS -- BUT THE GAP IS WIDENING, NOT
NARROWING.

THE QUESTION BEFORE GORBACHEV, THEREFORE, IS HOW LONG THE SOVIET UNION CAN SUSTAIN ITS UNQUENCHED DRIVE FOR MILITARY POWER -- ITS VERSION OF THE "GUNS INSTEAD OF BUTTER" POLICY OF A GENERATION AGO -- AT THE EXPENSE OF ITS OWN PEOPLE. THANK YOU FOR YOUR ATTENTION.